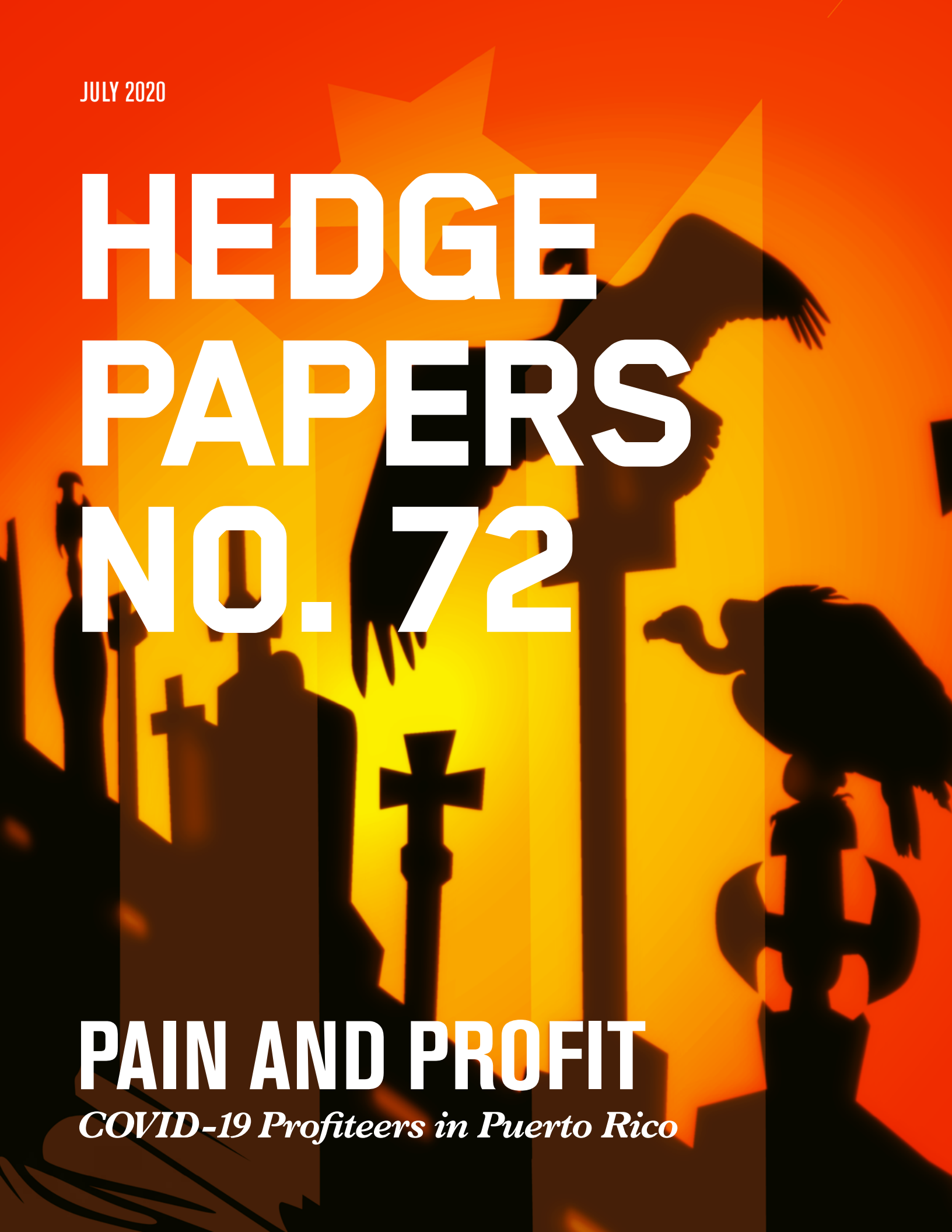


JULY 2020

# HEDGE PAPERS NO. 72

The background of the cover is a vibrant orange and yellow gradient, resembling a sunset. Overlaid on this are several black silhouettes. In the foreground and middle ground, there are several crosses of varying heights, some with decorative elements. Two large vultures are depicted in flight, their wings spread wide, as if they are scavenging. The overall mood is somber and evocative, suggesting themes of death and greed.

## PAIN AND PROFIT

*COVID-19 Profiteers in Puerto Rico*

*For years, the pharmaceutical industry has extracted enormous amounts of wealth from Puerto Rico. The companies have secured lucrative tax breaks from local government officials interested in attracting their operations to the island, and as a result pharmaceutical products account for a large share of Puerto Rico's exports.*

*Yet as Puerto Rico faces the COVID-19 pandemic, the pharmaceutical companies—and the tests they produce—are nowhere to be found.*

## **CONTENTS**

3 | Introduction

6 | Abbott and Roche

8 | The Reopening of the Economy Without Tests

9 | Who Are the Hedge Clippers?

10 | Press + General Contacts

11 | Endnotes

# INTRODUCTION

*For many years, the pharmaceutical industry has extracted enormous amounts of wealth from Puerto Rico. The companies have secured lucrative tax breaks from local government officials interested in attracting their operations to the island, and as a result pharmaceutical products account for a large share of Puerto Rico's exports.*

But as the country faces the COVID-19 pandemic, the pharmaceutical companies – and the tests and reagents they produce – have been nowhere to be found. For several months, Puerto Rico had the lowest rate of tests done when compared to anywhere in the United States.<sup>1</sup> According to a study published by the Blavatnik School of Government at the University of Oxford in England, Puerto Rico is among the countries least prepared to reopen its economy.<sup>2</sup>

Ignoring the recommendations of its own Medical Task Force, the government of Wanda Vázquez decided to reopen the economy without taking advantage of the time gained to adequately strengthen the mass distribution of tests and establish an effective program for tracking infected people.

The inaction of the pharmaceutical industry in this crisis puts thousands of families at risk of illness and death, especially those with limited economic

resources who have less access to quality medical services. Abbott and Roche stand out, since their tests to detect COVID-19 are distributed in the US, but in Puerto Rico the tests are conspicuously absent.<sup>3</sup>

## **This report highlights the following points:**

- In 2019, exports from the pharmaceutical industry and medical products totaled \$47 billion, or 74% of Puerto Rico's exports. Pharmaceutical products represented 36% of the value of all products manufactured in Puerto Rico. Despite this, Puerto Rico continues with the lowest rate of COVID-19 tests done when compared to the United States.
- Two multinational companies, Abbott and Roche, manufacture molecular tests to detect COVID-19. Both have operated in Puerto Rico for several decades and enjoy juicy tax exemptions. However, their molecular tests are nowhere to be found.
- Pharmaceutical companies like Abbott and Roche are part of the manufacturing sector in Puerto Rico that just in 2017 got around \$15.7 billion in tax exemptions. This is way more than the operating budget of the government in any fiscal year.
- Abbott and Roche's interests are represented through two influential business associations, the Puerto Rico Manufacturers' Association and the Pharmaceutical Industry Association of Puerto Rico. Both organizations are members of the Private Sector Coalition, a business alliance that has been pressing the government to reopen the economy. However, Abbott and Roche have not supplied the country with the molecular tests necessary to guarantee the safety of workers and their families.

## THE LACK OF TESTS IN PUERTO RICO

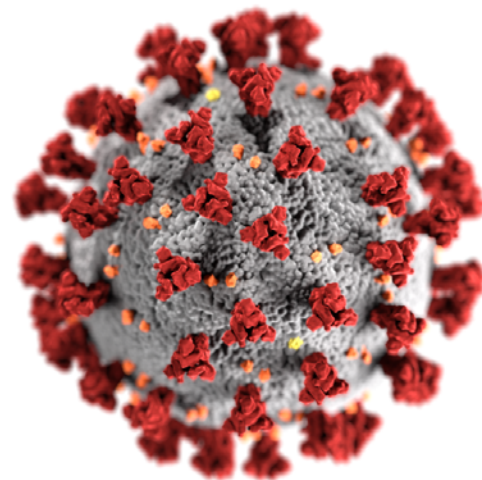
*At the time of publishing this report, Puerto Rico continues to have the lowest test rate compared to the 50 states in the United States.<sup>4</sup>*

The absence of accurate data regarding key information to deal with the virus demonstrates the dangerous incompetence of the government. Puerto Rico's Department of Health, through its digital dashboard, does not report on the number of tests carried out, active cases and cases recovered.<sup>5</sup> Nor has it been possible to organize an efficient contact tracing system.

Tests purchases have been riddled with irregularities, depending on intermediary companies with little or no experience in medical products and whose owners are activists or donors of the New Progressive Party. The largest and most embarrassing transaction was that of Apex General Contractors, a construction company with no experience with medical products that signed a \$38 million contract for the purchase of one million rapid tests.<sup>6</sup> The transaction was canceled by the bank due to its irregularity. It is now being investigated by the FBI, by Puerto Rico's Department of Justice, and by the Federal Department of Health. An extensive investigation launched by the local House of Representatives concluded, in its first report, with five referrals of public officials to local and federal authorities.<sup>7</sup> The participation in this and other questionable transactions by those close to the governor's office raises questions about the extent to which Wanda Vázquez knew what was happening.

The World Health Organization has stressed that countries do as many tests as possible in order to manage the pandemic: "We have a simple message for all countries: tests, tests, tests."<sup>8</sup>

The government of Puerto Rico has not bought molecular tests in massive numbers. It is striking that multinational companies that manufacture these tests have been operating in Puerto Rico for many years and enjoyed tax exemptions.



COVID-19

## THE PHARMACEUTICAL INDUSTRY IN PUERTO RICO

*Pharmaceutical industry is an important sector in Puerto Rico's economy.*

According to the president of the Pharmaceutical Industry Association of Puerto Rico, there are 70 medical device plants and 46 biopharmaceuticals that operate in the island, which, taken as an industry, produce 11 of the 20 most necessary medicines worldwide.<sup>9</sup> According to data from Puerto Rico's Planning Board, in 2019 exports of the pharmaceutical industry totaled \$47 billion, or 74% of the total exports of Puerto Rico.<sup>10</sup> In 2018, 36% of the value of all manufactured products came from pharmaceuticals and medical equipment.<sup>11</sup>

Some of the multinational pharmaceutical companies that operate in the island are Pfizer, Abbvie, Baxter, Bristol Myers Squibb, Eli Lilly, and Johnson & Johnson.

Pharmaceutical companies started moving considerably to Puerto Rico in the 70's with the approval of Section 936 of the federal Internal Revenue Code. Attracted by the tax exemptions provided under this section, which allowed them to avoid paying corporate income tax on profits, manufacturing companies, with US pharma at the forefront, took advantage and moved some of their operations to the island. 30 years later, when Congress eliminated section 936 in 2006, manufacturing activity went down, helping to ignite Puerto Rico's long economic crisis that eventually led to the government's bankruptcy.

However, as mentioned before, pharmaceutical companies still have a major presence in Puerto Rico. In fact, they still enjoy huge tax exemptions. Act 135 of 1998 and Act 73 of 2008, among other things, reduce a company's maximum income tax rate to 4% and grant tax credits for job creation and for the purchase of manufactured products in Puerto Rico.

**According to a report by Puerto Rico's Treasury Department, the fiscal cost for the tax exemptions provided under these two laws in 2017 was around \$15.7 billion. 98% of collections under Acts 135 of 1998 and 73 of 2008 come from foreign companies.<sup>12</sup>**

**Puerto Rico is a tax haven in which the tax cost of its tax exemptions in 2017 was around \$20 billion, according to the same report. To get an idea of the magnitude of this amount, it consists of more than double the government's operating budget for a fiscal year. On the other hand, the central government's bonded debt disputed in court is around \$18.7 billion.**

Recently, the coronavirus crisis has raised a lot of discussion at the federal level about using Puerto Rico as a strategic place for US pharma to operate.<sup>14</sup> Given the tense relationship between Beijing and Washington, the fact that companies based in China produce around 90% of the core components of key medicines used in the US has raised the issue of

moving the supply chain from the Asian superpower to the US colony.<sup>15</sup> Some local politicians have been vocal about giving pharma yet more tax exemptions.<sup>16</sup> Yet not a single word has been said by any of them about the pharmaceutical industry's absence in Puerto Rico's efforts to combat the coronavirus.

# ABBOT AND ROCHE

*Abbott and Roche are two of the many pharmaceutical companies that operate in Puerto Rico, and stand out among their peers because they have produced molecular COVID-19 tests with authorization from the Food and Drug Administration (FDA) since mid-March. Both also enjoy tax exemptions in Puerto Rico.*

Abbott is an US multinational company that manufactures pharmaceutical products. In 2019 alone, Abbott reported net profits of over \$3.6 billion.<sup>17</sup> A significant part of those earnings are reported from Puerto Rico, where Abbott has been operating since 1943.

Since the US began to be plagued by the pandemic, Abbott has been releasing products to deal with COVID-19, primarily tests to identify the virus. On March 18, three days after the beginning of the curfew and the closing of businesses in Puerto Rico, Abbott announced that it received authorization from the FDA for his molecular test.<sup>18</sup>

The success of these tests was such that by April 25 Abbott announced that it had sent over a million molecular tests to all 50 states.<sup>19</sup> However, as of early May, none of these tests had reached Puerto Rico, according to data released in a report by the Center for Investigative Journalism on tests purchases.<sup>20</sup>

Another pharmaceutical company that manufactures molecular tests and that operates in Puerto Rico is

Roche. This Swiss multinational company has been in Puerto Rico since 1976. Globally, by 2019 it reported having generated profits of up to \$14.5 billion (14.11 billion Swiss francs).<sup>21</sup>

On March 12, three days before the closing of the economy in Puerto Rico, Roche received authorization from the FDA to distribute its molecular test.<sup>22</sup> Four days later Roche announced the start of its distribution in the United States with the shipment of 400,000 tests.<sup>23</sup> As of the first week of May, none of these tests had reached Puerto Rico.<sup>24</sup>

In the case of the distribution of the reagents necessary to analyze the tests, several private laboratories' owners denounced the scarcity and slowness with which Roche sent its products to Puerto Rico. In fact, at the end of March, several private laboratories demanded that the government pressure Roche to distribute the reagents to all laboratories, and not just one, as they were doing until then, in order to process the molecular tests and know the results.<sup>25</sup>

According to expressions of some laboratory owners, the fact that Puerto Rico projects to have low levels of contagion, due to the small number of tests carried out, has implied that Roche has the island at the end of the reagent distribution list.<sup>26</sup> In this way Roche contributed to a vicious circle, where there are not enough tests to know the real level of contagion, and since not enough tests have been done, then the necessary reagents are not sent to process the tests because the supposed level of contagion is low.

Despite its massive production of molecular tests, so necessary to confirm cases of COVID-19, the absence of such tests raises questions about the role Abbott and Roche plays in Puerto Rico's coronavirus crisis.

The list of tax exemptions beneficiaries published by Puerto Rico's Department of Economic Development and Commerce shows that Abbott and Roche subsidiaries enjoy juicy tax exemptions through Act 135 of 1998 and Act 73 of 2008.<sup>27</sup>

*Abbott and Roche are also subject to Act 154 of 2010, which imposed a 4% tax on foreign corporations, mainly multinational companies that manufacture on the island. However, the Federal Treasury reimburses it with a tax credit, which means that in the end it does not imply a loss for the companies.*

The tax reduction on these companies – and the benefits they extract as a result of having operations in Puerto Rico – is extraordinary.

Among the income generated outside the United States, Abbott highlights Puerto Rico for its significant tax exemptions in its annual reports to the Securities and Exchange Commission.<sup>28</sup>

In the case of Roche, under the name of Roche Operations Ltd., it reported in its 2018 financial statement that it had an income before income taxes of \$45.6 million.<sup>29</sup> Without the exemptions granted, it would have had to pay \$17.6 million in taxes, but after taking into account the authorized decrees, it paid only \$407,735, that is, a 97% tax reduction. Thus, Roche had an effective tax rate of .89%.<sup>30</sup>

BlackRock, the world's largest asset manager and bondholder in Puerto Rico, is a shareholder in both companies. According to SEC filings, BlackRock is Abbott's largest investor, with 7.1% of the shares as of December 2019, while also having a modest investment in Roche shares.<sup>31</sup>

BlackRock is one of the investment firms that has taken advantage of Puerto Rico's debt crisis to invest hundreds of millions in government bonds. By March 10 of this year, BlackRock reported to the bankruptcy court having over \$372 million in general obligation bonds and \$28.1 million in bonds from the Public Buildings Authority.<sup>32</sup>



# THE REOPENING OF THE ECONOMY WITHOUT TESTS

*The reopening of the economy after the impact of the COVID-19 virus has to go hand in hand with the massive distribution of tests and contact tracing. However, more than 10 weeks after the start of the quarantine, there is a serious deficit of both.*

For several weeks business organizations pressured the government to speed up the reopening. Two of the associations that represent the interests of pharmaceutical companies, the Puerto Rico Manufacturers' Association and the Pharmaceutical Industry Association of Puerto Rico, are members of the Private Sector Coalition, one of the organizations that pressured the governor to reopen the economy.<sup>33</sup> The Private Sector Coalition is the organization that in 2017 promoted the so-called Labor Reform that, among other things, increased the number of weekly hours necessary to accumulate sick leave, so necessary now during the pandemic.<sup>34</sup>

Meanwhile Roche and Abbott continue to profit from the tax haven that is Puerto Rico.

The reopening will not be a return to how Puerto Rico was before the pandemic. The impact of the coronavirus has been devastating, not only for this colony of the United States, but for the entire world. If we start from that premise, it is important to recognize that all the reopening and recovery plans of the country must be responsible and fair with the force of truly moving the country, the working class.

The priority should be working families, the 43% of the population living below the federal poverty level, and the 329,000 people who have lost their jobs as a result of the pandemic.<sup>35</sup> People with hunger must also be a priority. The curfew and the closure of businesses to deal with the coronavirus has exacerbated a tragedy that has its roots in the immense social inequality that exists.

**While the pandemic continues and Puerto Rico continues its uncertain reopening, the country has a robust presence of pharmaceutical companies that profit from juicy tax exemptions.**

**Abbott and Roche enjoy these exemptions, and while they generate robust profits selling tests to detect COVID-19 in the United States, they contribute little or nothing to the lack of tests on the island.**





# WHO ARE THE HEDGE CLIPPERS?

Every day, the most unscrupulous hedge fund managers, private equity firms and Wall Street speculators impact the lives of Americans. They play an outsized role in our political process, our education system, and our economy. Hedge Clippers is a national campaign focused on unmasking the dark money schemes and strategies the billionaire elite uses to expand their wealth, consolidate power and obscure accountability for their misdeeds. Through hard-hitting research, war-room communications, aggressive direct action and robust digital engagement, Hedge Clippers unites working people, communities, racial justice organizations, grassroots activists, students and progressive policy leaders in a bold effort to expose and combat the greed-driven agenda that threatens basic fairness at all levels of American society.

The Hedge Papers are researched, written, edited, reviewed and designed by a distributed, networked team of researchers, writers, academics, attorneys, industry experts, community organizers and designers from around the United States, with contributions from international activists.

We welcome contributions from whistleblowers, industry insiders, journalists, lawmakers and regulatory officials as well as from regular Americans who have felt the destructive impact of hedge funds, private equity funds and the billionaire class in their daily lives.

Our collective includes individuals associated with labor unions, community organizations, think tanks, universities, non-governmental organizations, national and international organizing and advocacy networks, student and faith groups as well as non-profit and for-profit organizations.

The Hedge Clippers campaign includes leadership and collaborative contributions from labor unions, community groups, coalitions, digital activists and organizing networks around the country, including: the Strong Economy for All Coalition, New York Communities for Change, Alliance for Quality Education, VOCAL-NY and Citizen Action of New York; Make the Road New York and Make the Road Connecticut; New Jersey Communities United; the Alliance of Californians for Community Empowerment (ACCE) and Courage Campaign; the Grassroots Collaborative in Illinois; the Ohio Organizing Collaborative; ISALAH in Minnesota; Organize Now in Florida; Rootstrikers, Every Voice, Color of Change, 350.org, Greenpeace, the ReFund America Project and United Students Against Sweatshops; the Center for Popular Democracy and the Working Families Party; the United Federation of Teachers and New York State United Teachers; the American Federation of Teachers, the National Education Association, and the Communication Workers of America.

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